QUESTIONS AND ANSWERS CONCERNING AN OHIO MILK MARKET ORDER AS FORMULATED IN HOUSE BILL 155

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Concerns about milk price variability, the effectiveness of Federal Milk Marketing order pricing, and the existence of untapped over-order premiums have prompted several states to consider state milk marketing orders. Ohio is among these states. A state order may come into existence if the Ohio General Assembly passes House Bill 155 (H.B. 155). In this paper, I provide answers to some of the more common questions concerning this legislation.

What is the history behind House Bill 155?

New York state legislation served as the model for House Bill 616 (H.B. 616), the predecessor of H.B. 155. During the 1992 legislative session, H.B. 616 passed the full House and the Senate Agriculture Committee but was not voted on by the full Senate. Hence, H.B. 616 failed to pass the Ohio General Assembly. The final, amended version of H.B. 616 was re-introduced as H.B. 155 for consideration during the 1993-1994 legislative session.

What would House Bill 155 allow?

If H.B. 155 passes the General Assembly, Ohio could set a minimum price on Class I milk (Grade A milk used for fluid products). The state would collect a premium on Class I milk when the minimum price exceeds the minimum Class I prices set by the Federal Milk Marketing orders. Proceeds from the premium would be pooled and distributed equally to Ohio dairy farmers producing Grade A milk, regardless of whether an individual dairy farmer's milk is used to produce Class I, Class II (e.g., cream, ice cream, cottage cheese, and yogurt), or Class III (e.g. cheese, butter, nonfat dry milk) products (see Schnitkey and Jacobson for a description of the pooling process).

In essence, the Bill is enabling legislation that has two features: (1) a state Class I minimum price which may result in a state Class I premium, and (2) pooling of premiums to equalize payments to Ohio dairy farmers.

How could a state Class I minimum price come into being?

A minimum price could occur in two ways:

1. The director of the Ohio Department of Agriculture could declare an "emergency" premium effective for not more than 180 days.
2. A petition and hearing process could institute longer-run minimum pricing provisions. In this process, dairy farmers would petition the director of the Ohio Department of Agriculture to hold a public hearing addressing the need for minimum prices. Farmers, processors, and consumers would have the opportunity to present evidence at the hearing. After the hearing, the director would

determine if minimum pricing is needed. If the director deems minimum pricing necessary, a referendum outlining the minimum pricing provisions would be submitted to Ohio dairy farmers. Minimum pricing would come into existence if a majority of voting dairy farmers pass the referendum.

In essence, H.B. 155 is enabling legislation. The director and Ohio dairy farmers play key roles in implementing a state premium.

What would the Class I minimum price look like?

The state Class I premium would be super-imposed on minimum Class I prices set by the Federal Milk Marketing orders operating in Ohio. The Bill does not detail how the premium would be determined. Three options are:

1. The director could set a minimum price on Class I milk (This option follows the New York model). The state would collect and distribute funds whenever Federal order prices fall below the state minimum price. As an example, a state minimum price could be set at $13.75 per cwt. A $.25 per cwt. premium would be collected when the Federal order minimum price on Class I milk is $13.50 ($.25 = $13.75 state minimum price - $13.50 Federal order Class I price). A $.15 per cwt. premium would be collected if the Federal order Class I price is $13.60 ($.15 = $13.75 state minimum price - $13.60 Federal order Class I price). In essence, a floating premium would be collected anytime the Federal order Class I price fall below the state minimum Class I price. No premium would be collected when the Federal order price exceeds $13.75.

2. The director could set a minimum price that rides above the Federal order Class I price. This option institutes a state "over-order" premium. The state would collect and distribute funds no matter the level of the Federal order prices. As an example, the state could set the minimum price at $1.00 per cwt. above the Federal order Class I price. In this case, a $1.00 per cwt premium on Class I milk would be collected.
3. A combination of the above two options could be implemented. A minimum price could be set and a floating premium would be collected whenever the Federal order prices fall below the state minimum price. A set over-order premium could be collected whenever Federal order prices reach a prescribed level.

Could the Bill raise the milk price received by Ohio dairy farmers?

The Bill potentially could raise the average milk price received by Ohio dairy farmers. The exact amount depends on the specifics of the state minimum pricing provisions and market conditions prevailing at the time of implementation. Prices dairy farmers receive could increase by $.15 to $.25 per cwt. Some dairy farmers may gain more than the average increase while others may gain less. Some dairy farmers potentially could face lower prices.

What are some of the problems with House Bill 155?

Individual dairy farmers can increase or decrease the milk price they receive. Quality programs, butterfat and protein premiums, and marketing arrangements cause variations of over $1.00 per cwt. in milk prices received by Ohio dairy farmers. However, the overall price level is largely determined in a national market because milk and milk products flow across state lines. Implementing a state Class I minimum price does not change the national dimension. Hence, a state order has limited effectiveness in raising overall price levels.

Technically, H.B. 155 applies to milk produced in Ohio and processed in Ohio. The technical details of determining what milk is subject to a state Class I premium is problematic. A great deal of litigation could result from implementing a state Class I minimum price beyond the above criteria.

Setting a high Class I premium might encourage interstate movement of milk. Processors, for example, might move milk from surrounding states into Ohio in order to avoid paying the state premium. (See Jacobson for a more complete discussion of problems associated with State orders.)

How would funds be distributed to dairy farmers?

Funds would be distributed through a state equalization fund set up through the Ohio Treasury. All eligible dairy farmers producing Grade A milk would receive a premium regardless of where they shipped there milk. If a $1.00 state Class I premium was collected and 50 percent of the milk is used for Class I purposes, presumably a $.50

per cwt. premium could be paid to dairy farmers.

Equalization through a pooling process is practiced in most dairy markets. Federal orders, for example, institute equalization. Fundamentally, equalization implies that all dairy farmers should share in higher prices usually obtained for Class I milk. Not pooling all of the Class I premiums allows differing processors to pay differing amounts for Class I milk (see Schnitkey for an illustration).

Because of equalization, high Class I utilization processors who independently procure there milk may oppose the equalization provisions of H.B. 155. If implemented, these independent processors would have to pay into the state equalization fund, potentially increasing the price they pay for their milk.

Dairy farmers shipping to independent, high Class I utilization plants also may oppose H.B. 155. These dairy farmers fear that their milk price would be lowered because independent processors have to pay into the equalization fund.

References

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